



PRESS RELEASE

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CEO of Virginia Health Care Technology Company Pleads Guilty to \$30 Million Shareholder Fraud and \$7.5 Million Employment Tax Fraud

A medical doctor and entrepreneur pleaded guilty today to inducing interstate travel to commit a fraud and failing to account for and pay over employment taxes announced Principal Deputy Assistant Attorney General Caroline D. Ciruolo, head of the Justice Department's Tax Division, U.S. Attorney Dana J. Boente for the Eastern District of Virginia, Chief Richard Weber of the Internal Revenue Service-Criminal Investigation (IRS-CI) and Assistant Director in Charge Paul Abbate of the FBI's Washington Field Office.

According to the plea agreement, statement of facts, and other court documents, in or about September 2000, Sreedhar Potarazu, 51, of Potomac, Maryland, an ophthalmic surgeon licensed in Maryland and Virginia, founded VitalSpring Technologies, Inc. (VitalSpring), a Delaware corporation. VitalSpring operated in McLean, Virginia and provided data analysis and services relating to health care expenditures. In or around the end of 2015, VitalSpring started doing business as Enziime LLC, a Delaware corporation. From its inception, Potarazu was VitalSpring's Chief Executive Officer and President, and served on its Board of Directors.

As early as 2009, Potarazu provided materially false and misleading information to VitalSpring's shareholders to induce more than \$30 million in capital investments in the company. Potarazu represented on numerous occasions that the sale of VitalSpring was imminent, which would have resulted in profits for shareholders, and concealed that VitalSpring failed to account for and pay over more than \$7.5 million in employment taxes to the IRS. For example, in 2014, Potarazu provided shareholders with a written summary of operating results that reflected VitalSpring's 2013 revenues to be approximately \$12.9 million when, in fact, the 2013 revenue was less than \$1 million.

"Sreedhar Potarazu created a complex web of lies to deceive VitalSpring shareholders, using false documents, fictitious websites, and fake potential buyers to induce investments and conceal the precarious financial status of the company, including millions of dollars of employment tax that he diverted from the U.S. Treasury," said Principal Deputy Assistant Attorney General Ciruolo. "Due to the extraordinary work of the prosecutors and agents on this case, we were able to unravel this multi-layered scheme and today hold Potarazu accountable for his criminal conduct."

"For years Potarazu enriched himself by abusing the trust of his company's many investors and stealing millions of dollars from them through a complex scheme of fraud and deceit, said U.S.

Attorney Boente. "This case is a prime example of this office's ongoing commitment to bringing white-collar criminals to justice."

"Throughout nearly a decade of deceit, Sreedhar Potarazu not only defrauded his investors, but also the American tax system," said IRS-CI Chief Weber. "Motivated by pure greed, Potarazu created an elaborate scheme to hide his stolen funds and evade paying his employment tax liability. Today's plea should serve as a stark reminder that criminals, such as Potarazu, will be held accountable for their misdeeds."

"The FBI's investigation into Sreedhar Potarazu's multi-million scheme to defraud VitalSpring's shareholders serves as a continued affirmation of our commitment to investigate and expose financial fraud," said Assistant Director in Charge Abbate. "The FBI and our law enforcement partners will continue to pursue and bring to justice those who engage in criminally deceitful business practices."

Scheme to Defraud

From VitalSpring's inception, but specifically from 2009 to the present, Potarazu solicited investments through in-person meetings, emails, telephone conference calls, webinars, and phone calls. From in or about 2009 through in or about 2016, Potarazu raised approximately \$32 million from more than 160 victim investors.

Potarazu induced investments from shareholders by making false representations, concealing material facts, and telling deceptive half-truths about VitalSpring's financial condition, tax compliance, and alleged imminent sale. Potarazu also caused someone to pose as a representative of a prospective buyer on shareholder conference calls to add legitimacy to his claims regarding VitalSpring's imminent sale.

VitalSpring had not generated a profit since 2009. Nonetheless, Potarazu falsely represented to shareholders that VitalSpring's financial position and profitability was improving from 2009 to 2015, and that VitalSpring had millions of dollars in cash reserves. To support his scheme, Potarazu presented fake bank statements to some shareholders that showed inflated balances.

Potarazu also concealed from shareholders that VitalSpring owed substantial employment tax to the IRS. Potarazu provided or caused to be provided false corporate income tax returns to some shareholders that overstated VitalSpring's income and omitted the accruing employment tax liability.

In November 2014, Potarazu created a Special Review Committee (SRC) in response to a lawsuit filed in Delaware by shareholders that claimed Potarazu misled the victim investors about VitalSpring's finances, the status of the impending sale, and Potarazu's compensation. Potarazu provided the SRC with false financial records, fake tax returns, and fake bank statements to induce the SRC to believe that VitalSpring was financially healthy and to cause the SRC to make materially false representations to the Delaware court and victim investors. He also falsely represented that the alleged imminent sale would yield substantial returns to the shareholders, and used this to induce additional investments. Members of the SRC traveled interstate to the Eastern District of Virginia to attend meetings in which Potarazu presented false information for their review.

In truth, there was no imminent sale pending. Potarazu provided false financial records, including fake balance sheets, fabricated bank statements, and false tax returns, to several prospective buyers, financial advisors, and investment banks. In December 2014, when he was questioned by Prospective Buyer 1 as to the accuracy and authenticity of bank records provided, Potarazu presented false or misleading emails purporting to be from a bank employee to bolster the legitimacy of the false bank records. Potarazu also presented Prospective Buyer 1

with a link to a fake website that was made to look like a website for a major national bank, and which referred Prospective Buyer 1 to VitalSpring's false bank statements, and used a shadow, secondary email account assigned to a VitalSpring employee to provide false information to Prospective Buyer 1, thereby creating the appearance that Potarazu had not provided the information.

In October 2014, Prospective Buyer 2 informed Potarazu that it was no longer interested in VitalSpring. Nevertheless, Potarazu continued to represent to shareholders for months thereafter that there was a deal pending with Prospective Buyer 2. In March 2015 and February 2016, Potarazu organized, or caused to be organized, conference calls with shareholders to discuss the alleged sale. In advance of the calls, Potarazu obtained questions from the shareholders and used them to prepare the individual who posed as a representative of Prospective Buyer 2 for each call.

From 2011 to 2015, in addition to his salary paid by VitalSpring, Potarazu diverted a portion of the investments from the victim investors for his own personal use.

Employment Tax Fraud

Potarazu admitted that from 2007 to 2016, VitalSpring accrued employment tax liabilities of more than \$7.5 million. Potarazu withheld taxes from VitalSpring employees' wages, but failed to fully pay over the amounts withheld to the IRS. As CEO and President of VitalSpring, Potarazu was a "responsible person" obligated to collect, truthfully account for, and pay over VitalSpring's employment taxes. Ultimate and final decision-making authority regarding VitalSpring's business activities rested with Potarazu.

Potarazu was aware of the employment tax liability as early as 2007 and, between 2007 and 2016, was frequently apprised of VitalSpring's employment tax responsibilities by his employees. In addition, IRS special agents interviewed Potarazu in 2011 and informed him of the employment tax liability. In all but one quarter between the first quarter of 2007 and the last quarter of 2011, as well as the second and third quarters of 2015, Potarazu failed to file VitalSpring's Employer's Quarterly Federal Tax Return (Forms 941) with the IRS. Potarazu also failed to pay over any of the employment tax withheld from VitalSpring's employees' wages in all but one quarter between the second quarter of 2007 and the third quarter of 2011, as well as the third and fourth quarters of 2015.

Between 2008 and 2015, instead of paying over employment tax, Potarazu caused VitalSpring to make millions of dollars of expenditures, including thousands of dollars in transfers to himself and others, the publication of his book, "Get Off the Dime," a sedan car service, and travel.

U.S. District Court Judge T.S. Ellis III scheduled sentencing for March 3, 2017. Potarazu faces a statutory maximum sentence of 10 years in prison for inducing interstate travel to commit a fraud and five years in prison for failing to account for and pay over employment taxes, as well as a period of supervised release, forfeiture, restitution and monetary penalties.

Principal Deputy Assistant Attorney General Ciruolo and U.S. Attorney Boente commended special agents of IRS-CI and the FBI, who conducted the investigation, and Assistant Chief Caryn Finley and Trial Attorney Jack Morgan of the Tax Division, and Assistant U.S. Attorney Jack Hanly, who are prosecuting the case.

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